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## Austria

## Retail Food Sector

## Annual

## 2006

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**Report Highlights:**

Austria experienced an economic growth of 2.6 % in 2006, which is the highest rate since 2000. Despite significant improvements in the labor market and higher net incomes due to a tax reform, private consumption failed to accelerate. However, it is expected to rise in the coming year. Austrian food and beverage sales show a rising trend. In 2005, retail sales were estimated at Euro 14.9 billion (\$18.5 billion), which reflects an increase of 3.5 percent within two years. U.S. products with the best market opportunities include: organic and health food products, seafood, dried fruit and nuts (including organic products), wine, convenience food and ready to eat meals.

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## SECTION I. MARKET SUMMARY

Austria is a small market with slightly more than 8 million people. However, the living standard is high which results in a strong demand for high quality products and luxury articles. Foods and beverages from Austria, Germany, and other EU countries dominate the shelves of the country's retail outlets. The reason for this is primarily the duty-free movement of goods amongst EU members, transportation advantages, existing business ties, and the fact that legal food requirements are the same within the EU. Despite the challenges, there are some market opportunities for the U.S., particularly in the prime quality sector.

The Austrian Institute of Economic Research reports an economic growth of 2.6 % in 2006, which is the highest rate since the year 2000. Despite a significant improvement in labor market and higher net incomes due to the tax reform, private consumption failed to accelerate up to now, but is expected to rise in the coming year.

Food and beverage sales show a rising trend. According to AC Nielsen in 2003, retail sales by food businesses (including non-food products) accounted for Euro 14.4 billion (\$17.9 billion USD\*\*). In 2005, they are estimated to account for Euro 14.9 billion (\$18.5 billion), which is an increase of 3.5 percent for the two-year period. Total food and non-alcoholic beverage consumption expenditure of Austrian private households accounted for Euro 14.3 billion (\$ 17.8 billion) in 2004, which is 2.7 % more than the previous year.

Even though some efforts have been made during the last couple of years to liberalize the Austrian retail sector, it still remains extremely traditional with a high degree of government control. Most Austrian retailers are still not allowed to open their shops on Sundays and official holidays. This rigid control restricts the competitiveness and flexibility of the retail sector.

At present, leading German retailer groups like Rewe, Aldi and Lidl dominate the Austrian retail sector. Only a handful of strong companies of Austrian origin like Spar are in a position to compete with these foreign giants.

Due to lower prices in food retail and a decline of food on the list of consumer priorities food sales went down 2 percentage points of total retail sales in the period from 2000 to 2005. In 2005, food sales accounted for 34 % of total retail sales.

Developments in the retail food sector that can be found in many products include greater demand for health food, a greater diversification and internationalization of consumer tastes and strong demand for as much convenience as possible. Variety is another strong sales driver and packaged food manufacturers are continuing to increase variety, limited editions and seasonal products.

\*\*Exchange rate 2005= 1 US\$ = 0.804 Euro

<b>Advantages</b>	<b>Challenges</b>
Extensive travel by Austrians to the U.S. in recent years (relatively low dollar) introduced them to more American products.	Since Austria is EU member, products of other EU countries can enter the market duty free. U.S. products pay the EU duty rate.
Good image of certain U.S. products (fresh fruits, dried fruits, nuts, seafood, wine)	The major share of the population has reservations towards certain U.S. products (beef because of hormone problem; all items containing biotech ingredients). Reservations towards products with chemical food additives.
High quality of U.S. products	Unawareness of U.S. quality by consumers. Most efficient promotion (television spots) is expensive.
Population is growing (immigration).	Population is small (8.2 million) and thus import volumes small. A large share of imports from third countries comes through German wholesalers.
Food imports are rising.	Imports are coming mainly from EU countries, particularly Germany and Italy. High shipping costs from the U.S. to Austria.
Niche market for various products (like organic and health food products)	Compliance with strict food regulations, U.S. organic certification is not recognized in the EU
Good infrastructure, efficient distribution system, importers speak English.	Retail market highly concentrated, difficult to acquire shelf space in large supermarkets, high listing fees.
High incomes and rising. Rising demand for luxury products such as certain seafoods.	

## SECTION II. ROAD MAP FOR MARKET ENTRY

### A. SUPER STORES, SUPERMARKETS, HYPER MARKETS OR SUPER CENTERS, CLUB AND WAREHOUSE OUTLETS

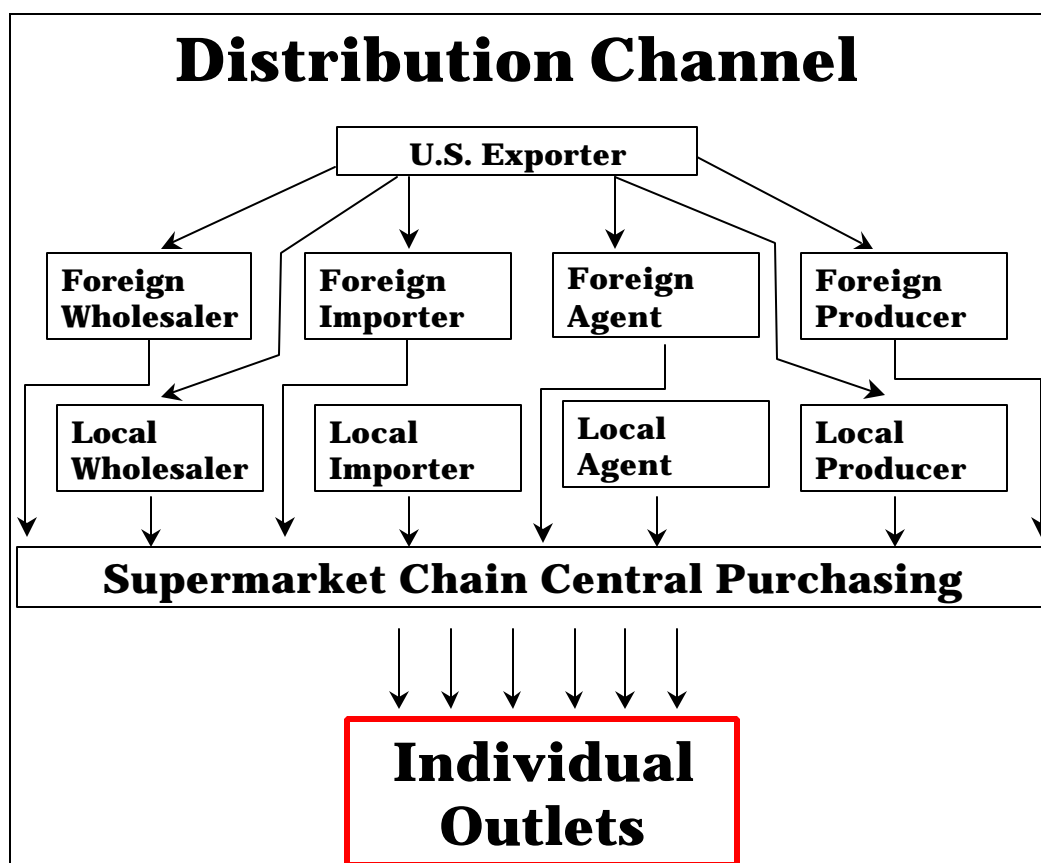
#### Entry Strategy

The common way to approach importers is by offering them products by fax, mail or email.

U.S. traders participating in European food fairs are encouraged to invite Austrian traders to their booths. One or more employees of the larger Austrian trade companies always attend the international food fairs in Cologne (ANUGA) and Paris (SIAL). In addition, Austrian food traders usually visit the food fairs in Brno, Czech Republic and Budapest, Hungary. As the above-mentioned fairs are large and close, Austrians rarely go to U.S. shows.

The best way for U.S. products to enter the Austrian market is through agents with good relations with the supermarket chains. Some of the big chains import their products directly (mostly via Germany).

## Market Structure



In general, retailers buy through local and foreign importers, local and foreign wholesalers, local and foreign agents, and directly from local and foreign producers. The foreign sources are mainly German ones.

The above distribution pattern applies particularly to supermarket chains. Large supermarket chains have their own warehouses from which the products are distributed to retail outlets.

Smaller companies or individual shops buy predominantly from wholesalers and to a lesser extent from producers.

Certain food chains buy some products from their mother company abroad or together with foreign companies. Some food chains own plants where certain products are manufactured.

There are importers specialized in some products or product groups and importers dealing with a large range of foods and beverages. Imported products are distributed nation-wide through their own sales force or through a network of other companies.

Direct sales to the central purchasing department of one of the large supermarket chains is the most desirable, but at the same time, the most difficult way for U.S. exporters to enter the country's market.

### Company Profiles

<b>Retailer Name &amp; Outlet Type</b>	<b>Owner-ship</b>	<b>Sales (Euro million) 2005</b>	<b>No. of Outlets 2005</b>	<b>Locations (city/region)</b>	<b>Purchasing Agent Type</b>
Rewe Austria Supermarkets Superstores, Discount-Supermarkets	REWE concern Germany	4,412	1,376	Most areas	Direct, Importer, Wholesaler
HOFER Discount-Supermarkets	Aldi concern, Germany	2,350	313	Most areas	Mother company, Wholesaler, Direct
SPAR Supermarkets Superstores Hypermarket	Local	4,116	1,438	Most areas	Direct, Importer, Wholesaler
ADEG	Local	979	799	Most areas	Direct, Importer, Wholesaler
ZEV MARKANT Supermarkets C&C	Swiss and Local	806	1,023	Most areas	Direct, Importer, Wholesaler
Zielpunkt, Discount-Supermarket	Tengelmann Group, Germany	751	357	Most areas	Direct, Importer, Wholesaler
METRO C&C	Metro Holding, Germany	736	12	Vienna and some other cities	Mother company, Wholesaler, Direct
Lidl Discount-Supermarket	Lidl&Scharz Group, Germany	280	86	Most areas	Direct, Importer Wholesaler

Apart from Spar Warenhandels AG all leading food retailers in Austria are large and powerful German retailer groups that moved to Austria after it joined the EU in 1995. These large retailer groups have huge resources at their disposal, against which the local retailers are not able to compete. This has resulted in the decline of the traditional independent retailers in Austria and a structural change in the Austrian retail landscape.

A further increase in the level of concentration can be seen. From 1997 to 2005, the number of food shops dropped from 7,300 to 5,731. A trend away from hypermarkets towards larger supermarkets could be seen in the last couple of years.

The top five chains cover more than 90% of the domestic market. It is expected that in the mid-term fewer than ten chains will survive.

REWE Austria covers mainly the eastern part of Austria and Spar the western parts. The food retail market share of REWE Austria in 2005 was 37.6 percent, the market share of Spar accounted for 35.1 percent. Both big companies could still increase their market shares.

Fierce competition in the retail sector results in low consumer prices, but at the same time causes strong pressure on producer, wholesale, and export prices.

Intense competition between supermarkets/hypermarkets and discounters lead to greater efforts to copy the key success factors of the competition. Non-discounting retailers strengthen low-price products, for example by deep discounts and greater private label activities. Discounters, on the other hand, make efforts to improve by offering more fresh products, and the introduction of organic products.

There is a strong trend towards larger shops. In general, markets with about 500 and hypermarkets with about 2,000 square meter sales area are successful.

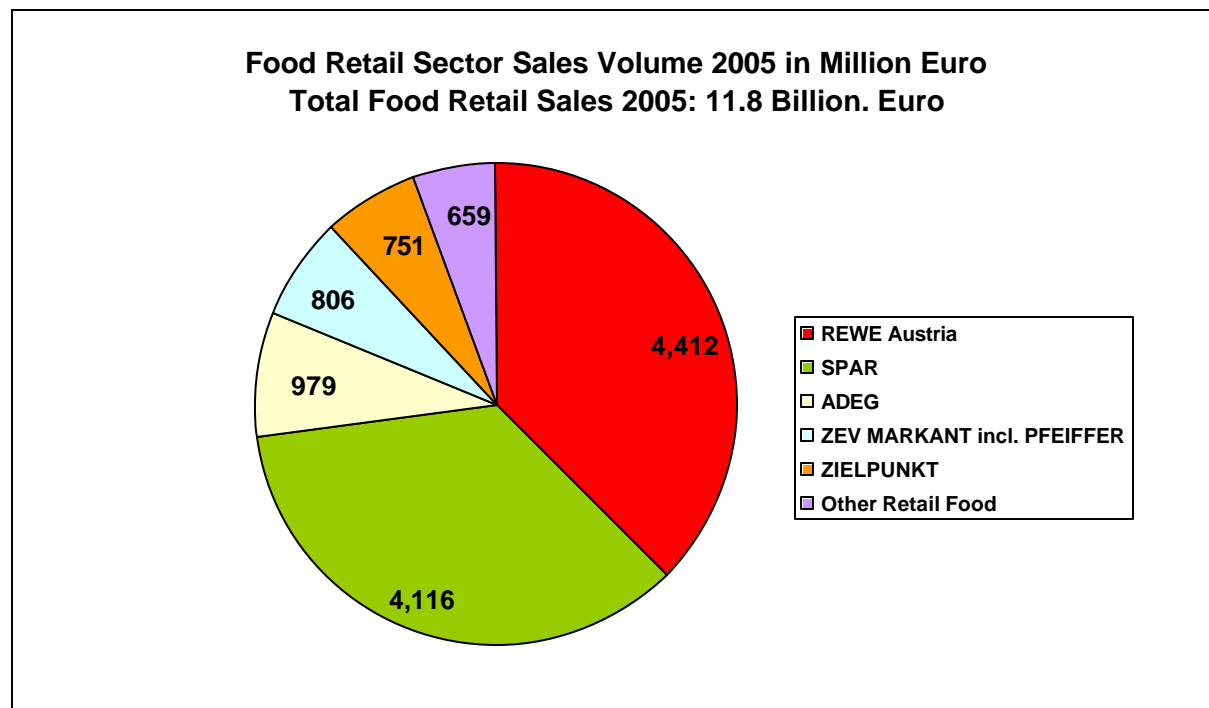
The unemployment rate compared to other European countries is low, the income situation high and thus there is a niche market for specialty products.

Since the husband and wife are working in many families, there is little time for cooking. As a consequence, the demand for convenience products is rising. In most supermarkets, home meal replacements are offered.

Due to the low-price strategy of the food retailers and discounters, the high-profile manufacturers' brands are losing out to private labels. The quality of the private labels continues to improve and the gap between the branded and private label products is becoming smaller. As a result, retailers' dependence on food manufacturers is decreasing. It is estimated that around 11% of all retail sales are generated through private labels. In the food retail sector, Hofer, a subsidiary of Aldi, has only private label products in its product range.

An increase in the number of private labels in the organic food sector was also noticeable in the last years, partly due to the growing health consciousness of consumers and partly due to food scandals. The leading private labels in this product sector are Ja! Natürlich from REWE Austria and Natur pur from Spar.

## Austrian Food Retail Sector Sales Volume 2005 by Companies



Source: Trade Press (Cash, Das Handelsmagazin)

## B. CONVENIENCE STORES, GAS STATION MARTS, KIOSKS

There are kiosks connected with cinemas, theaters and stadiums, which sell only sandwiches and snacks. This is also the case for the majority of train station kiosks. Only a few of them at the main stations have a larger product line.

The most important non-conventional shops are gas station marts, which belong to big gas station chains but are rented to individuals.

Gas station marts take advantage of an exemption in the strict shop opening law that allows them to sell food and sundries after shop opening hours, and on Sundays, and public holidays.

More than one third of the population buys food occasionally in gas station marts, although, due to the present legislation, these shops cannot sell frozen food products.

Consumer goods sold through service station shops increased by 20% in the last five years. The strong consumer demand in the convenience sector due to a mobile population is acting in favor of gas station shops.

In 2005, the number of gas station marts stagnated at 2,773. The average size of the shops is between 35 sq m and 40 sq m, although the shop sizes vary significantly. The trend towards outlets with large selling spaces is mainly seen by the branded gas stations.

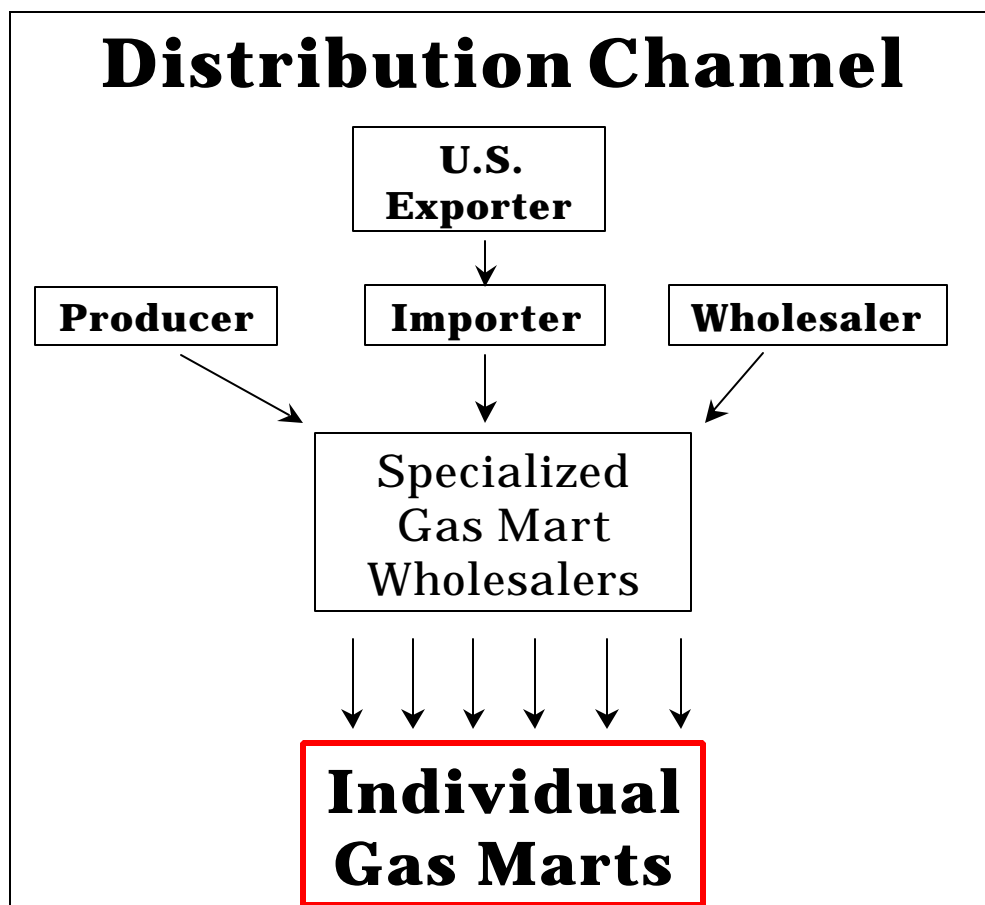


Although food sales through gas stations shops are significant, the industry believes that this figure is likely to remain stable in the future in spite of the expansion of shop retail spaces in branded service stations. Service station shops are significantly more expensive than food retail outlets and the expansion of grocery discounters, as well as the low-price strategy of food retailers erodes food sales through service station shops. Products that are necessary for daily requirements, such as pet food and drugstore articles, are showing a decline in sales and may be taken out of the product line in the future.

### Entry Strategy

All offers should be directed to the wholesalers who forward and discuss these offers with the gas station marts.

### Market Structure



Generally, foods and beverages are obtained from wholesalers, which have a special branch for serving gas station marts. The main companies are Lekkerland, Kinast, and Kastner. Lekkerland is by far the largest company.

Since gas station marts determine the products to be placed on shelves of their company stores, it makes no sense to offer any products to individual gas shops.

The food and beverage sales of gas station shops, which already cover a relatively large share of the Austrian food market, are growing. Among U.S. products, snacks, particularly dried fruits, nuts and various mixtures of these products have the best market opportunities.

### Company Profiles

<b>Retailer Name and Market Type</b>	<b>Ownership</b>	<b>Number of Outlets 2004</b>	<b>Locations</b>	<b>Purchasing Agent Type</b>
Express Shopping. BP Shops	BP	600	Most areas of Austria	Wholesaler
Viva Stop & Shop-Store	OMV	550	Most areas of Austria	Wholesaler
Select	Shell	349	Most areas of Austria	Wholesaler
Agip Shop Ciao Agip	Agip	174	Many areas of Austria	Wholesaler
Shop	Esso	172	Many areas of Austria	Wholesaler
Avanti	Avanti	153	Many areas of Austria	Wholesaler
Jet - Shop	ConocoPhillips	100	Various areas of Austria	Wholesaler
Express Shop Turmoel	Doppler	90	Various areas of Austria	Wholesaler
Various	Others	85	Many areas of Austria	Wholesaler

### **C. TRADITIONAL MARKETS – “MOM AND POP” SMALL INDEPENDENT GROCERY STORES AND WET MARKETS**

These shops cover only a small percentage of the food market and their share appears to be in permanent decline. In addition, they offer extremely limited opportunity for sales of imported U.S. products.

Mom and Pop shops buy only through wholesalers.

## **SECTION III. COMPETITION**

Total food (raw and processed) and beverage imports in 2003 accounted for Euro 5.6 billion (\$ 6.9 billion) of which the U.S. share is about 1%. About three quarters of the total imports come from EU countries. Due to long transportation time lags for U.S. commodities and duty free imports from EU countries, the U.S. share is small.

Since EU accession in January 1995, the domestic food processing industry is facing great economic difficulties. Products of larger food manufacturers of other EU countries are more competitive and have been coming in increasing volumes into Austria.

The strongest branch within the Austrian food industry is the juice industry.

Austria is a large net exporter of beef and has a sufficient pork production. Nevertheless some quantities are imported each year from Germany and the Netherlands (veal and pork). There might be some market for U.S. high quality hormone free beef.

Due to rising demand for turkey, relatively large imports of poultry (63,075 MT in 2005) are carried out each year. The main suppliers are Germany (45%), Hungary (13%), and Italy (12%).

Dairy imports and exports are large. The latter exceeded imports by Euro 282 million (\$ 351 million). Imports include predominantly fresh cheese. Larger quantities are imported from Germany and France.

Egg imports (Euro 43 million, \$ 54million) are five times as high as exports. About half of the imports are eggs without shell and egg powder coming primarily from Germany and Netherlands. Relatively large shares of imported shell eggs are hatching eggs.

Domestic fish production is marginal and limited to trout and carp. Since the country is landlocked, all marine fish, shellfish and crustacea must be imported. Total seafood imports according to the Global Trade Atlas in 2005 were 62,354 MT, valued at Euro 215 million (\$ 268 million). Due to transshipment within the EU, the real value of imports is thought to be much higher. From 2003 to 2004, imports from the U.S. increased by 268 % in value. The main seafood items from the U.S. include fresh/frozen fish and prepared seafood products.

The Austrian market offers limited opportunities for U.S. exporters due to geographical separation, lower tariffs for EFTA members (Iceland and Norway) and free imports from other EU members with large seafood industries such as Germany, Denmark, Netherlands, and Sweden. However, since demand for luxury products is growing, some sales prospects exist for U.S. seafood such as salmon, lobster, crab, shrimp and related preserved fish products. A good potential market should also exist for catfish and catfish products, fresh and breaded.

For U.S. traders, Austria's dried fruit and nut imports are interesting. The import value in 2005 was Euro 22.6 million (\$ 28.1 million). Main competitors are Romania, Hungary and other central European countries).

There is a strong trend for foreign premium wines. Of the total wine imports amounting to Euro 150 million (\$187 million) in 2005, the U.S. share was about 1.9 percent. Main competitors include Italy, France, Spain.

The development of organic sales in Austria is a steadily upward one. In 2004, total organic fresh produce sales amounted to Euro 159.8 million (\$ 209.7 million). Compared to 2003 that means an increase of 8.3 percent. 5.2 percent of total retail sales consist of organic products. There is demand for U.S. organic products (nuts, dried fruits, etc.) and other health food products.

Pet foods imports in 2005 were 88,428 MT. In general, the major share comes from other EU countries (70%), followed by central European suppliers (10%). The predominant EU suppliers are France and Germany. Around 1.6% comes from the US.

## **SECTION IV. BEST PRODUCT PROSPECTS**

### **Category A: Products Present in the Market That Have Good Sales Potential**

Tree nuts (including organic products), dried fruits (including organic products), rice, wine, pet food, convenience food, ready meals, health food products, non-biotech products

### **Category B: Products not Present in Sufficient Quantities but That Have Good Sales Potential**

Pecans, cranberries, cranberry jam, cranberry juice, seafood; niche market for buffalo, antelope.

### **Category C: Products not Present because they Face Significant Barriers**

U.S. high quality beef: Presently only U.S. high quality beef (HQB) originating from cattle not raised with hormones can be imported. Certain EU labs must confirm the freedom of hormones after testing. Testing is costly and time consuming which constitutes an additional barrier to the already more expensive non-hormone treated beef.

U.S. turkey exports would be competitive to meet Austria's rising turkey demand if the EU approved U.S. poultry slaughter plants. However, the U.S. anti-microbial chlorinated water treatment of poultry and poultry products is banned in the EU, and such treated poultry may not enter the EU.

Products that have to be labeled under the EU labeling regulation EC 1830/2003 (concerning the traceability and labeling of genetically modified organisms and the traceability and labeling of food and feed products produced from genetically modified organisms) have almost no chance to be stocked in Austrian supermarkets because of the green biotech hostile environment.

## **SECTION V. POST CONTACT AND FURTHER INFORMATION**

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